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SUBJECT: PORTUGAL'S TEXTILE AND APPAREL SECTOR

REF: STATE 138090

INDUSTRY OVERVIEW

¶1. In 2005, the textile/apparel sector represented Portugal's largest industrial sector, accounting for approx. 20% of industrial GDP and 20% of all exports, primarily to Spain, Italy, France, Germany and the United Kingdom. Textile/apparel manufacturers are concentrated in the north of the country and employ almost 25% of the national industrial labor force or approx. 210,000 laborers. Over the last decade, the industry has seen a steady decline in production and employment due to global competition and trade liberalization within the European Union (EU) in which Portugal is a member. The 2005 unemployment rate in the industry was 6.6%, up 15% from 5.7% in 2004. END SUMMARY.

ECONOMIC STRUCTURE / STATISTICS AND PROJECTIONS

¶2.

- 2005 GDP in USD: \$183.5 billion
- Total industrial production in USD: \$27.5 billion
- Total Textiles/Apparel production in USD: \$5.1 billion
- Exports in Textiles/Apparel to the U.S. in USD: \$300 million
- 2005 Labor Force: 5.4 million
- Total manufacturing employment: 850,000
- Total Textiles/Apparel employment: 210,000
- Principal destinations of textile/apparel exports in 2005: All EU 79%, (Spain 14%, France 25%, Germany 14%, UK 10%, Italy 6%, Other EU 10%), and US 4%.
- Principal origins of textile/apparel imports in 2005: All EU 74% (Spain 30%, Germany 14%, France 9%, Italy 5%, UK 5%, Other EU 11%), and US 2%.
- Principal exports in 2005: textiles and apparel 20%, machinery and equipment 19%, transport goods 13%, and agricultural products 9%.
- Principal imports in 2005 (excluding energy): Machinery and equipment 27%, agricultural products 17%, transport goods 16%, and pharmaceuticals 5%.

- Breakdown of GDP 2005: Services 74%, Industry 15%, Construction 5%, Agriculture 3%, and Electricity 3%.

SOURCES: The 2006 Economist Intelligence Unit Report; the Federation of International Trade Associations; Associacao Textil e Vestuario de Portugal (the Textile and Apparel Association of Portugal); Instituto Nacional de Estatistica Portugal (Portugal's National Institute of Statistics); EURATEX; the European Technology Platform for the Future of Textiles and Clothing; The Portuguese Textile and Clothing Industry Federation; the Ministry of Economy and Innovation - Cabinet of Strategic Studies; and the World Trade Organization.

ADDITIONAL INFORMATION

13. Question: Are host country producers receiving lower prices due to heightened international competition?

Answer: The affects of global trade liberalization have taken a toll on the industry. When worldwide textile quotas came down on January 1, 2005, a wave of low-quality and counterfeit Asian imports hit the EU market and crippled Portugal's competitive edge. Over 10,000 textile/apparel labor positions were lost in 2005 and over 50 small and medium-sized Portuguese manufacturers were forced to close their operations or relocate to lower-wage economies in Eastern Europe. Despite this, manufacturers are not receiving lower prices on the EU market, according to the Ministry of Economy and Innovation - Cabinet of Strategic Studies.

14. Question: Have U.S. and EU restrictions on certain exports of textiles and apparel from China, effective through 2008, affected export prospects for host country manufacturers?

Answer: In April 2006, the European Commission adopted a provisional anti-dumping measure that imposed high duties on select Chinese imports, including textiles, while allowing other products to remain duty-free. Initially, Portugal's textile/apparel manufacturers believed that this measure would even the playing field or give them a competitive advantage. However, Portuguese and other EU manufacturers complained that Chinese exporters were avoiding these duties by purposely mislabeling shipments.

The April provision is scheduled to expire in October 2006. Portugal and other major EU textile/apparel producers are fighting to make the provision definitive and inclusive of products previously excluded from duties. If the members do not agree on a definitive measure, no punitive duties will be imposed on Chinese and Vietnamese imports starting in 2007.

15. Question: Has increased global competition affected local labor conditions by causing employers to reduce wages, seek flexibility from government required minimum wages, or adversely affected union organizing?

Answer: Increased global competition, especially from China, has affected local labor conditions in Portugal. Though Portugal's labor market is among the lowest paid in the EU with the average worker receiving about \$500/month, Portugal's textile/apparel labor force is finding it increasingly difficult to compete with Chinese imports whose laborers earn \$65/month.

The Portuguese government and textile/apparel manufacturers want to revise the country's rigid and out-dated labor laws but face numerous obstacles from unions who want to increase salaries and benefits. Current labor laws provide provisions barring employers from altering employment terms such as working hours and fining employers for dismissing laborers. The dismissal process can also be costly, bureaucratic and lengthy.

16. Question: Have manufacturers received more, less, or the same number of orders as in years past?

Answer: Though manufacturers are not receiving lower prices on the EU market, the number of orders for Portuguese

manufacturers continues to decrease yearly. Since 2000, Portugal has lost over 50,000 textile/apparel laborers and a growing number of Portuguese producers have been forced to close down their shops or relocate manufacturing to lower-wage economies in Eastern Europe. The industry lost over 10,000 textile/apparel labor positions last year.

17. Question: Has the host government or private industry taken action to increase the country's competitiveness, such as improving infrastructure, reducing bureaucratic requirements, developing the textiles (fabric production) industry, moving to higher value-added goods, or identifying niche markets?

Answer: Portugal is trying to improve the country's overall competitiveness, including efforts to reduce bureaucracy, but Post is unaware of any programs specifically targeting the textile/apparel industry. About ten percent of manufacturers has begun to adjust production to make better quality goods, an area in which China is weak. These manufacturers are targeting upscale and top-of-the-line retailers in the EU and US.

18. Question: Does post think that the host government or private industry's strategy will be successful?

Answer: No longer able to compete based on relatively cheap labor in a quota-free world, textile manufacturers must work to make labor laws more flexible in addition to employing innovative technology and creative marketing to carve out niche-markets. Post predicts that the textile sector will continue to shrink in the near to mid-term.

Hoffman